company also had a defined contribution plan (profit-sharing, etc.) from which cash withdrawals could be obtained, or whether the company was comparatively large (as measured by level of sales) or smaller? To test this idea, we created two-way tables to which we applied the chi-square test for statistical significance; a relationship was considered significant at the 0.05 level.

Results for salaried employee plans. We found that a significantly greater percentage of firms with annual sales over $2 billion offer salaried employees a lump-sum option at retirement than do firms with sales under $2 billion. However, no size-related significant relationship was found concerning the availability of the lump-sum option at termination prior to retirement. Nor was a significant relationship found between the contributory or noncontributory character of the plan and the availability of the lump-sum option (either prior to or at retirement.) The presence or absence of an accompanying defined contribution plan was unrelated to the availability of the lump sum (either prior to or at retirement).

Results for hourly employee plans. The statistical tests indicate that companies with a defined contribution plan in addition to the defined benefit plan for hourly employees are more likely to offer the lump-sum option than are companies without an accompanying defined contribution plan. This association is true both for termination prior to and at retirement. No significant relationship was found for company size or contributory/noncontributory status and presence of the lump-sum option, either prior to or at retirement.

Limits on availability of the lump-sum distribution. Similarily, are there particular circumstances or characteristics of a Fortune 500 company's defined benefit pension plan that often accompany the presence of limits where the option is available? Statistical tests paralleling those described above were performed to answer this question. For salaried employees, there was no statistically significant relationship between contributory/noncontributory status and the presence of limits among plans permitting lump-sum distributions. Similarly, there was no significant statistical relationship between size of company and the presence of limits, or between defined benefit plans with an accompanying defined contribution plan and the presence of limits. The same was true for hourly employees: no significant relationship was found between the presence of limits and the contributory status of the plan, the size of the plan, or the presence or absence of an accompanying defined contribution plan.

Conclusion

The beneficial tax results available under 10-year forward averaging plus the advantages of IRA rollovers have spurred employee interest in lump-sum distributions. Employers have had to weigh this interest in conjunction with a pension plan's traditional goal of paying an income for life to retired employees and their spouses. To date, a great majority of employers continue to restrict the pension benefit to some form of lifetime annuity. Most of the corporations with the lump-sum option have established limits on its availability. If market interest rates are beginning a new upward spiral, however, employers may soon be faced with the need to reassess offering the lump-sum option in light of heightened demand from employees. □

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[1]TIAA/CREF provides individual annuities for use in defined contribution pension plans for educational organizations, under which retirement benefits are payable only as life annuities. There is no cash option except for beneficiaries of employees who die prior to starting their retirement annuity benefits.

[2]For this survey, "retirement" includes terminations at both early and normal ages as prescribed by the pension plan. Early and normal retirements were combined to make the questionnaire short and easy to complete. A review of prior surveys indicates there are only small variations in lump-sum availability at early and normal ages.

[3]Examples 4, 5, and 6 are highly restrictive financial requirements that essentially limit lump-sum eligibility to a few top, financially well-off employees. Reclassifying the restrictive plans increases the number of employers not permitting lump-sum distributions at retirement by 11 (to a total of 78 percent of employers) for salaried and 4 (to 86 percent of employers) for hourly employees. All except one of these restrictive plans do not permit lump-sum distributions prior to retirement for either salaried or hourly employees.

JMB Institutional Realty

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estate is without a certain risk, Lillard feels that the long-term rewards for pension funds are substantial. According to JMB, the unleveraged return of 15.77 percent for real estate owned by public partnerships was achieved during the 1973-81 period, with strong cash flow each year. From inception (August, 1980) to March, 1983, the JMB Group Trust I provided total annualized return of 14.8 percent. The firm claims that total returns to JMB Group Trust investors from properties held by the partnerships would have projected out each year from 1973 to 1981 respectively as follows: 14.3 percent, 14.7 percent, 11.9 percent, 13.4 percent, 13.8 percent, 17.7 percent, 18.7 percent, 19.3 percent, 14.7 percent.

"We think an investor should achieve a rate of return of about 10 percent in excess of inflation," he estimates. "If a plan sponsor, for example, sees a rate of inflation of 5 percent annually over the next 10 years, a rate of return of 12 to 15 percent annually should be possible."

Pensions and real estate

Lillard feels that real estate is an important and growing investment for pension funds. "Retirement funds generally have about 4 percent of their total assets in real estate," says he. "The larger funds have a somewhat higher percentage, and a good many have a target of 10 percent. A growing number have a target of 15 percent to 20 percent."

A key attraction of real estate to pension funds is that the asset class adjusts as liabilities rise and fall. "Pension funds need to estimate salaries, and that is where they can make a big error in judgment, because if the rate of inflation is greater than anticipated, it will ultimately mean a lot more money going out," explains Lillard. "If inflation is high, bonds will drop in price and stocks will go down, but real estate will adjust to the inflation."

What about real estate as an investment in a low inflation climate? "Real estate will still be a satisfactory investment in times of low inflation as well," concludes Lillard. "It is an investment for all seasons." □